

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Fourth Quarter of 2003 through the Fourth Quarter of 2007

Idaho's economic outlook is relatively unchanged from the one presented in the previous *Idaho Economic Forecast*. In January 2004, it was predicted that Idaho's economy had finally turned the corner in 2003 toward stronger growth. This is still true. However, recent historical data and changes to the national forecast suggest the former projections may have been slightly optimistic, so the current Idaho economic outlook has been lowered accordingly. To summarize, Idaho is still expected to achieve the economic milestones set in the previous forecast, but it will take slightly longer to reach them.

In the previous forecast, it was anticipated Idaho nonfarm employment would expand 1.0% in 2003. This growth hinged on a relatively healthy showing in the second half of 2003. However, new Idaho employment data show Idaho nonfarm employment grew slower than had been previously projected. Specifically, it advanced at a 0.2% annual rate in the third quarter of 2003 and 0.5% rate in the fourth quarter. In comparison, Idaho nonfarm employment was previously forecast to expand 2.6% in 2003's third quarter and 1.3% in the fourth quarter. As a result of the slower growth, last year's Idaho nonfarm employment was about 571,500, which is nearly 2,100 lower than had been previously estimated.

The new data has lowered the starting point of the forecast. However, it is just one factor influencing future employment levels. In the current forecast, nonfarm employment growth rates in 2004 and 2005 fail to match their previously predicted paces. Specifically, instead of averaging 1.6% in 2004 and 2005, Idaho nonfarm employment growth should average 1.4% over those two years. As a result, Idaho nonfarm employment is expected to be 587,844 in 2005; or about 3,900 below the previous prediction. This should be the widest gap between the current and previous employment forecasts.

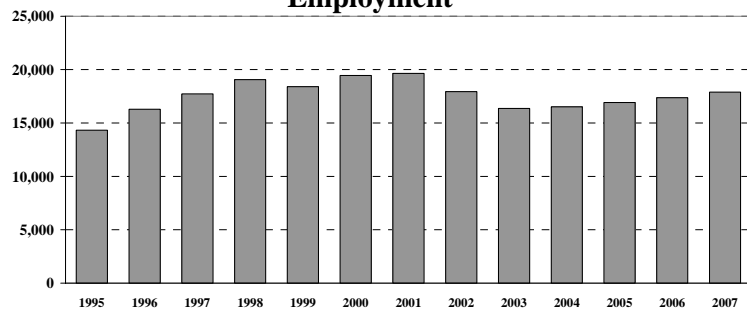
Beginning in 2006, the gap between the two forecasts narrows. This occurs because over the last two years of the forecast, Idaho's nonfarm employment grows faster than in the previous forecast. The pace of annual job growth is expected to accelerate from 1.4% in 2004 and 2005 to 2.1% in 2006 and 2007. This is slightly faster than the 1.8% average forecast for these two years in January 2004. Thanks to this faster growth, employment makes up most of the ground lost in the previous years. In 2007, Idaho nonfarm employment is forecast to be 613,312, which is just 238 shy of the previous estimate for that year.

Idaho nominal personal income displays a similar pattern as nonfarm employment. Namely, it grows slightly slower in 2004 and 2005 than its predecessor, but advances faster in 2006 and 2007. As a result, Idaho nominal employment is \$43.5 billion in 2007, compared to the previous estimate of \$43.6 billion.

SELECTED IDAHO ECONOMIC INDICATORS

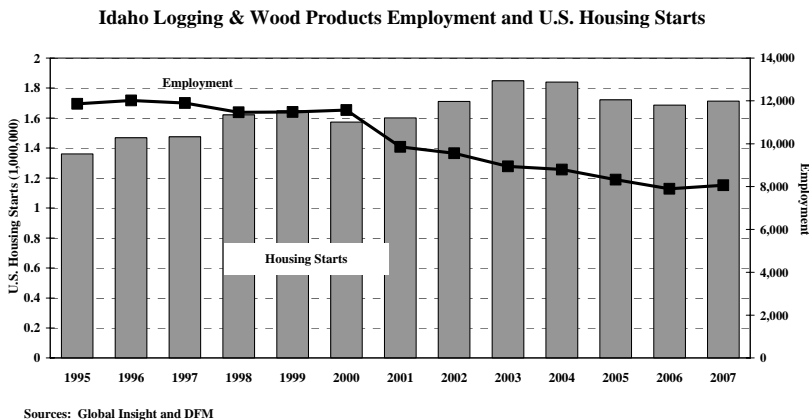
Computer and Electronics: After contracting in both 2002 and 2003, employment in Idaho's computer and electronics sector is expected to expand over the forecast period. The employment recovery began at the end of last year when employment rose for the first time since the beginning of 2001. In order to gain an appreciation for this turnaround, a short history of the state's largest manufacturing employment sector is in order. This sector's employment

**Idaho Computer & Electronic Products
Employment**



peaked at nearly 20,700 in the first quarter of 2001 then shed over 4,500 jobs over 10 quarters. Its woes can be traced to the fallout from the bursting high-tech bubble. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% from 1995 through 1999. Unfortunately, investment spending dropped well below the previous year's pace in 2000, and slipped even further in 2001. In that year real investment in computers retreated for the first time since 1990 and investment in communications equipment also declined for the first time in a decade. Because the state's high-tech firms have strong ties to these sectors, the fallout from the bust has been felt in Idaho. In 2001, Jabil Circuit, Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard had all announced layoffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the worse was yet to come. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. It is not difficult to understand how hard this sector was hit. Four of the seven Idaho companies reporting layoffs of at least 100 persons in 2002 were high-tech firms. These seven companies laid off 1,515 employees in 2002, with the four high-tech companies accounting for 1,104 (73%) of the total decline. That same year, Jabil Circuit announced it was halting its Idaho operations and was putting its two-year old Meridian plant up for sale. One notable exception to the list of companies with significant layoffs was Micron Technology, the state's largest high-tech employer. However, it joined the ranks of companies laying off employees in early 2003 when it cut about 1,100 Idaho jobs. After three years of dismal conditions, several factors suggest the outlook for this sector is improving. It appears the worst may be over. After declining in 2001 and 2002, real investment in equipment and software should advance over the next few years, with 2004 showing the most promise. This recovery partly reflects the replacement demand for computers and peripheral devices. Computer systems and software purchased during the last expansion are becoming technologically obsolete, therefore many are in the process of being upgraded and/ or replaced. In addition, the high-productivity returns for investing in computers should boost demand. Companies wanting to make these investments have found it relatively easy thanks to low interest rates, attractive depreciation treatment, and improved corporate cash flow. The return of investment suggests cautious optimism is in order, and Idaho high-tech firms are expected to expand. Another positive sign is computer memory prices have risen recently. This is welcome news for Idaho's Micron Technology, who is one the world's largest producers of memory devices. The company recently returned to profitability after 13 quarters of losses, and company officials project the company will be in the black during fiscal year 2004. However, the company is not expected to rehire all of the employees it laid off in 2003. Instead, it plans to fill only mission-critical positions. Employment in Idaho's computer and electronics sector is expected to expand beginning this year.

However, growth rates will not approach those experienced during the years leading up to 2000. Instead, employment should advance 2.3% annually over the 2004-2007 period.

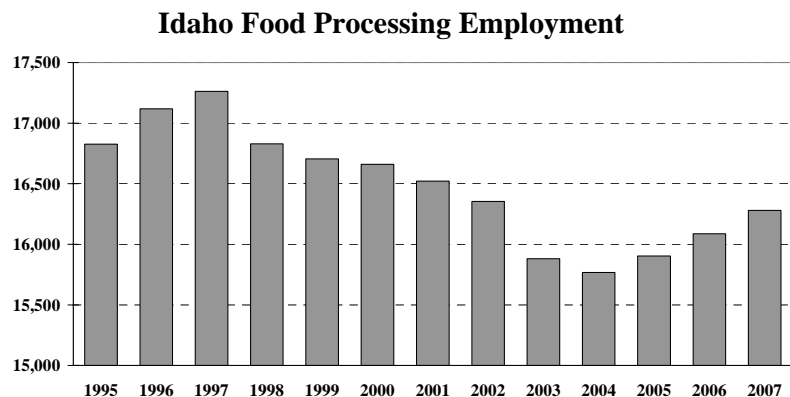


Logging and Wood Products:

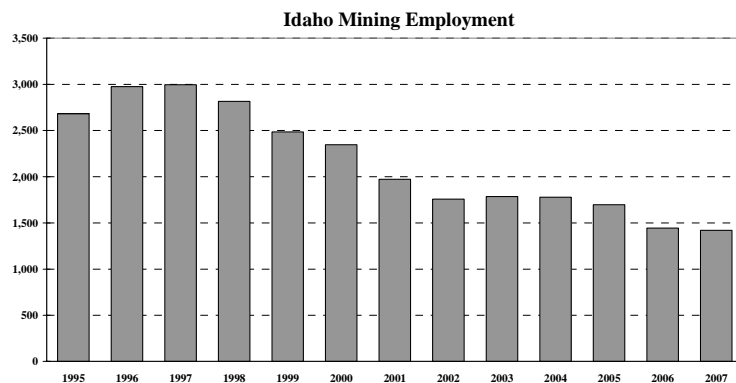
Idaho's lumber and wood products employment is expected to struggle over most of the forecast period. This sector's employment last peaked at nearly 11,600 jobs in 2000, but has fallen every year since then. In 2003 there were just under 9,000 jobs left in this sector. What makes this decline especially disappointing is a large part of it took place during a period of

strong demand. Traditionally, Idaho lumber and wood products employment has been driven by demand. A strong U.S. housing market meant strong demand for wood products, which increased employment. A weak housing market usually resulted in lower employment. The recent paradox of a strong housing market with weak employment is explained not by demand, but by supply. According to one of the industry's most highly regarded publications, *Random Lengths*, "The bull markets of the late 1990s led to some capital investment in manufacturing capacity. Production capacity coincided with a crash in export markets and a rise of offshore imports. All this combined to push prices to a 10-year low during a housing boom. American producers were further hampered in their ability to compete by the strong dollar." It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. Ironically, the industry's problems have been compounded by the dearth of timber available from federal lands. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102.3 mbf a decade later, which was less than 10% of the total harvest. These supply problems have exacted a high toll in Idaho. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill this fall, putting about 140 people out of work. The company sold its Moyie Springs mill to Riley Creek, but not all of the former employees found jobs with the new owners. In early October, Stimson Lumber informed 67 employees at its Atlas mill they were being permanently laid off. Idaho lumber and wood products employment is forecast to continue sliding through 2007 before posting a modest (2.1%) gain in 2007.

Food Processing: It appears that Idaho's second largest manufacturing employer may finally be on the road to recovery after declining for several years. The state's food processing sector has been shedding jobs since 1997. This prolonged downturn has raised fears the industry's problems may be structural instead of



cyclical. This fear arose from the closure of several food processing plants. For example, Simplot recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. Unfavorable business conditions caused Simplot to also close its Nampa meat packing plant in the fall of 2003. Nearly 360 jobs were lost when the plant was idled. J.R. Simplot Company recently opened its newest plant in Canada. In recent years, Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. This has raised fears about this industries future in Idaho. If processors plates were not already full, they are also dealing with weak demand for their products. Weak demand is a temporary problem that should reverse itself over the forecast period. Likewise, Idaho food processing employment should post a slow recovery.



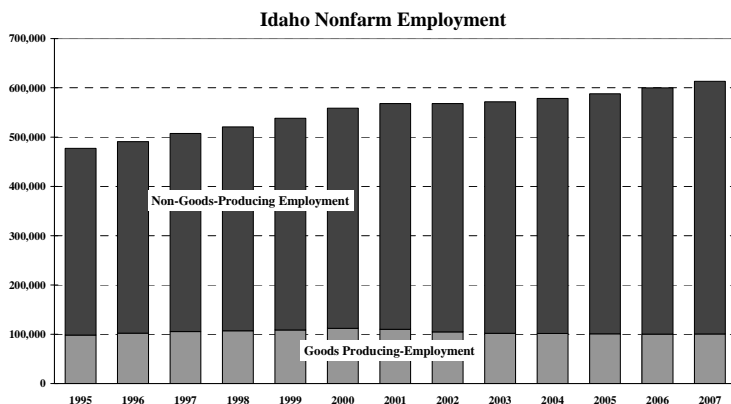
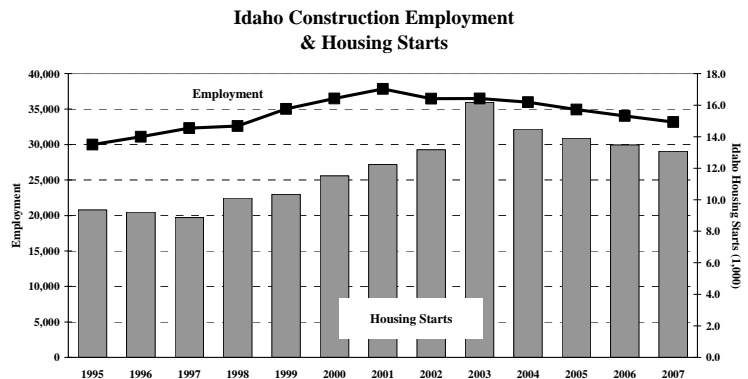
Mining and Chemicals: The Gem State's mining and chemical sectors are anticipated to experience continued hard times over the forecast horizon. The fortunes of these resource-based industries have long been subject to the rise and fall of the business cycle. These ebbs and flows can easily be seen in each sector's employment history. For example, Idaho mining employment fell from the beginning of 1991 until it hit a trough in 1993. Employment hit its next peak in 1997.

The mining sector has been shedding job since then. While it is easy to see the cyclical changes, the scarcity of data makes it harder to see the long-term trend. The new NAICS-based data have many advantages over the older SIC-based data, but it does have a major shortcoming. The detailed NAICS history only goes back to 1991, whereas the SIC data went back to 1969. However, the declining mining employment trend was evident in the SIC-based data, even before the adoption of the NAICS data. Generally, it showed that in recent years each job peak was lower than the previous one while each job trough was deeper than its predecessor. Unfortunately, current mining cycle has yet to find its nadir and Idaho mining employment is not expected to regain the ground it has lost. To do this, several mines would have to reopen. Unfortunately, current business conditions do not seem conducive to reopening mines. The combination of soft demand and the negative trend is expected to force Idaho mining employment to drift further down over the forecast period. Specifically, it is anticipated to drop from 1,785 in 2003 to 1,420 in 2007. The state's chemical sector's journey has been different than the mining sector. It has not experienced the wide employment swings of the mining sector. In fact, it has strayed little from the 2,300-job mark since 1995. However, this changed drastically when the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello closed in 2002. Idaho chemical employment dropped from 2,385 jobs in the second quarter of 2001 to 1,943 jobs a year later. Like the state's reeling mining sector, chemical sector employment is not expected to recover these losses over the forecast period.

Construction: The outlooks for the state's housing starts and construction employment have improved since the last *Forecast* was published. Part of this increase was the unexpected strength both sectors displayed late last year. For example, it was previously forecast Idaho housing starts would shrink in the last quarter of 2003 after surging to 16,398 units in that year's third quarter. This spike was

believed to be a unique phenomenon, thus the return to more normal levels of activity in the fourth quarter. However, history has proven this assumption wrong. According to more current data, Idaho housing starts actually grew at a healthy 18.5% annual rate in 2003's fourth quarter, to nearly 17,470 units. Single-unit housing construction accounted for all of this growth, advancing by a 41.9% annual rate.

The number of multi-unit housing actually shrank at a 63.0% annual rate during this same period. Not surprisingly, Idaho construction employment followed a similar path. Instead of falling as had been previously forecast, it actually expanded slightly in the last quarter of 2003. The late-year growth spurts for housing and construction employment were considered when preparing the new forecasts, but so were other factors. In general, both Idaho housing and construction employment are expected to be slightly stronger than previously forecast. The revised historical data had its largest impact on the starting levels for the forecast. For example, the new data suggest there were about 3,000 more units started in the fourth quarter compared to the previous forecast. However, while housing activity was strong at the end of 2003, its performance was exaggerated by seasonal factors. Housing starts are typically at their lowest point of the year in the winter quarter because of inclement weather. Thus, it is typically boosted by a seasonal factor to account for this seasonal drop. However, if activity is unusually strong, the seasonal factor boost levels too high. This is probably what happened at the end of last year, so the starting point for housing starts in the first quarter of 2004 was set at just under 15,000 units. While this represents a 46.0% annual decline from the last quarter of 2003, it is significantly above the 13,301 units that were forecast previously. As was the case in the last forecast, Idaho housing starts are expected to decline over the forecast period. However, housing declines less steeply compared to the previous forecast. Specifically, it falls an average of 5.2% in the current forecast versus 7.7% in the previous one. The improved forecast reflects the already-mentioned stronger historical data, continued low interest rates, and the more robust population growth. The stronger housing outlook causes Idaho construction employment to improve compared to the previous forecast.



Nongoods-Producing Industries:

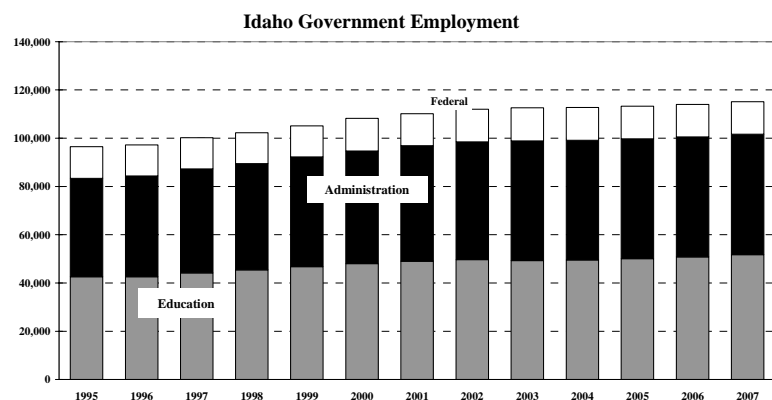
Most of the state's nonfarm jobs are categorized as nongoods-producing jobs. In 2003, this sector accounted for over 80% of all nonfarm jobs in Idaho. Much of this is due to the sheer number of large job categories that come under the nongoods-producing moniker. For example, two of the largest nongoods employers are services and trade. Together they account for three-fourths of nongoods-producing

employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories and accounts for the lion's share of employment. There were nearly 260,000 service-

related jobs in Idaho in 2003 versus just under 97,000 trade-related jobs. The services sector can be split into its various components. The three largest services components are: professional and business services (70,172); education and health services (62,550); and leisure and hospitality services (54,202). The outlook for professional and business employment resembles the overall job outlook. That is, its growth should pick up steam over time. Education and health services employment should benefit from a couple of population trends. First, is the faster-than-average growth of Idaho's population. Second, is the aging of the population. Both of these factors place increased demands on the health industry. The forecast calls for leisure and hospitality employment to continue expanding through 2007. However, several factors create uncertainties about how well it will perform in the short term. On the plus side, domestic tourism is expected to benefit from the weak dollar, high airline fares for international travel, and fears about traveling abroad. On the minus side, Idaho travel could be hampered this summer by record-high gasoline prices and a limited water recreation season caused by the low mountain snowpack. The next group of service categories consists of sectors with employment of around 20,000. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs in 2003. These sectors will benefit from the expected increase in call center hiring. This marks a welcome change from the recent series of call center closings. Major players, such as T-Mobile, Verizon, Qwest, and Citicard, are either in the process of expanding or have announced expansion plans. These have been incorporated into the current forecast. The trade category can be divided into retail and wholesale pieces, with retail being the larger of the two sectors. Since retail is closely tied with tourism, it will be interesting to see how well it weathers the factors affecting the hospitality and recreations category. For example, it remains to be seen whether the weaker dollar will lure Canadian shoppers back into northern Idaho shops or whether high gasoline prices will keep them home. Professional and business services employment should increase an average of 3.6% per year. Education and health services should grow 3.4% annually. The number of information services jobs should grow 3.3% annually. It will be followed by leisure and hospitality services, which is anticipated to advance 2.9%. Other services should advance 2.2% yearly. Financial services employment growth is projected to average 1.9%, while transportation, warehousing, and utilities are expected to average 1.2% growth. The trade sector can also be broken out this way. Retail trade should average 2.4% growth over the forecast period, while wholesale trade advances at a 1.6% yearly pace. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 1.4% in 2003, 1.6% in 2004, 2.1% in 2005, 2.6% in 2006, and 2.6% in 2007.

Government: The employment outlook for Idaho's state and local government sector over the forecast period has improved slightly. This change primarily reflects the influence of two factors. The first factor affecting the forecast is the availability of additional historical employment data. The new data suggest Idaho state and local employment was weaker than anticipated in the second half of 2003. Specifically, it was projected

in the January 2004 *Idaho Economic Forecast* state and local employment would expand at a 1.9% annual rate in the third quarter of 2003 and by a 0.2% rate in the fourth quarter, bringing the job total to 99,975 at the end of that year. This has been lowered to 98,597 in the current forecast because the new historical data suggest state and local government employment actually shrank during the second half



of the year instead of expanding. Obviously, this lowers the starting point for the forecast. As a result, if nothing else changed, Idaho state and local employment would be lower throughout the forecast period. However, something has changed that causes this sector's employment to grow faster than had been previously forecast. Specifically, the state's population growth rate has been increased. This change was made to reflect better the state's actual population growth. In the past, Idaho's population growth was expected to slow toward the national rate of about 1.0% over the forecast period. However, recently released population estimates suggest the Gem State's population growth rate is not falling as steeply as had been previously forecasted. For example, the population has averaged over 1.5% growth over the 2000 to 2003 period. In 2003 alone the population grew an estimated 1.6%. This was well above the previously forecasted rate of 1.0%. After several years of underestimating the state's population growth, it was decided to raise the expected future growth rates. Specifically, it was previously forecast Idaho's population would expand 1.0% annually over the 2004-2007 period. In the current forecast, the population increases 1.5% this year and next, 1.4% in 2006, and 1.5% in 2007. As a result of this faster growth, the Gem State's population is projected to be 1,444,500 in 2007, compared to the previous estimate of 1,409,000. The education category is most affected by the stronger population growth. Specifically, Idaho education employment averages 1.2% annual growth over the forecast period, compared to the previous estimate of 0.7% annual growth. The current forecast shows non-education employment rising an average of 0.18% per year, versus the previous forecast of 0.25%. It should be pointed out that local governments' ability to increase payrolls is restricted by state-mandated budget caps. Federal government employment in Idaho is the sector least affected by the revised population numbers. As in the previous forecast, this job category is expected to shrink slowly over the next few years.